ANALYSIS OF ECONOMIC CRISES AND RESPONSES: STUDYING MACEDONIA'S APPROACH TO HANDLING ECONOMIC CRISES

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INTRODUCTION

Since it independence from Yugoslavia in 1991, Republic of North Macedonia has become more liberalized country and with an improved business environment. Prior to independence, North Macedonia was the poorest republic of Yugoslavia (only 5% of Federal output of goods and services).

An absence of infrastructure, United Nations sanctions on its largest market (The Federal Republic of Yugoslavia)[1] and a Greek economic embargo were the reasons of the low economic growth rates until 1996. Worker remittances and foreign aid have influenced the recovery of the country after this year, when GDP has started to heal economic growth, except in 2009 as a result of the war in Kosovo.

Regardless of the reforms made in the business and fiscal sector, unemployment rates were high and the trade deficit was large while inflation rates were low, maintaining the macroeconomic stability. Prudent macroeconomic policy through a fix exchange rate of the local currency, it has also had an impact on maintaining this stability.

After the fall of the Former Yugoslavia, the economy of North Macedonia experienced several shocks which negatively affected the local economy, starting

1 "Doing Business in Macedonia, FYR 2013". World Bank. Archived from the original on 23 October 2012. Retrieved 21 October 2012.

with the Western embargo on the Yugoslavian common market, and ending with the Greek embargo over the Macedonia naming dispute. After 2001, The GDP of North Macedonia grew by an average of 6% annually until the 2007-2008 financial crisis, when its economy contracted due to the Global Financial crisis. North Macedonian economy experienced the deepest decline from the health crisis of Covid-19, which consequences are still present today.

Precisely, the effects of the last two crises, which caused huge negative consequences in North Macedonia, are the focus of the analysis in this chapter.

ECONOMIC CONSEQUENCES OF THE FINANCIAL CRISIS ON THE ECONOMY OF THE NORTH MACEDONIA

The world's biggest economic crisis, although not created in North Macedonia, has its own reflection on the Macedonian economy.

First of all, it is due to the dependence of the small and open Macedonian economy on the demand for products in the member states of the European Union, which has significantly decreased due to the Global financial crisis. The North Macedonian economy as well as her stature were well positioned. Namely, the conservative fiscal, monetary, and financial policy gave the North Macedonian authorities room to spillover over the global crises. As a result, North Macedonia avoided a major decline in production and problematic capital outflows.

The country was well positioned to return to growth once the situation in Europe improved[2]

In the period of 2006-2008, the economy grew at an average rate of 5.5% and the growth rate of 6.5% in 2007 is the highest since its independence.

High optimism among economic subjects was followed by a boom in credit activity in conditions of an almost balanced budget.

This trend was interrupted again with the onset of the Global financial and economic crisis, which for this small economy was the first recession. Exports fall drastically, which contributed to the deficit in the current account of the balance of payments reaching 12.7%. International financial institutions not offered almost any support to deal with the crisis in the first few years of its occurrence. The low level of public debt provided considerable fiscal space for simulative anti-crisis measures. International financial markets were completely frozen from September 2008 until early June 2009 were the Eurobond was issued. The

2 http://macedoniaonline.eu/content/view/23138/45/

National Bank of the North Macedonia applied a sharp monetary contraction. The reference interest rate in the spring of 2009 reached 9%, credit activity decreased and monetary aggregates M1 and M2, which grew at a high annual rate in the past few years, recorded a decrease of -4.1% and -4.3% respectively.

With a negative growth rate of -0.4% in 2009, we entered a recession. Healing was slow over the next two years. With the repeated decline of economic activity by 0.5% in 2012 North Macedonia recorded a double recession.

Basically, the North Macedonian economy was exposed to the Global financial crisis and recession through two channels, the financial system and foreign trade. The negative effects of the financial channel were limited due to the soundness of the banking sector and the lack of exposure to risky foreign assets.

The negative effects of the financial channel were limited due to the soundness of the banking sector and the lack of exposure to risky foreign assets. However, the independent assessment of the IMF and World Bank Financial System Assessment Mission conducted in March and April 2008 stated that North Macedonia's financial system is not particularly vulnerable to macroeconomic and financial shocks. The North Macedonian banking sector constitutes more than 90% of the financial sector. Finances the credit expansion from its own sources or from its deposits.

Unlike Bulgaria, Serbia, Croatia, Romania, and most of the countries of Central Europe, in North Macedonia, only after the significant expansion in 2007 and 2008, the ratio of bank deposits and loans reached 90%. Because the banking sector of North Macedonia did not finance its expansion from foreign funds, the sharp jump in the cost of capital for emerging economies, immediately after the collapse of, Lehman Brothers, did not represent a problem for the North Macedonian banking system.

While the relative isolation from the world financial market represented a dam for the negative effects of the crisis, due to a high integration in international trade, the recession in the world economy was quickly transferred to the North Macedonian economy. Reduced foreign demand and a sharp decline in metal prices caused exports to decline in the last quarter of 2008, and economic growth slowed to about 2% compared to about 6% growth in the previous three quarters.

The Effects of the Crisis in the North Macedonia with Key Macroeconomic Indicators

Although at the beginning of the crisis in the country, no major changes were felt in macroeconomic indicators, however, economic growth slowed down because

European countries are the country's largest trading partners[3]. All of these had an impact on macroeconomic stability, maintaining the inflation rate within the expected framework and further reducing unemployment.[4]But should not overlook the fact that the crisis brought a great deal of uncertainty among investors who were planning to invest in the country.

The financial crisis led to the unprecedented use of non-standard monetary policy tools for two reasons. First central banks had to intervene in financial markets to prevent liquidity and solvency problems from possibly breaking down the monetary transmission mechanism. Since monetary policy had to be eased beyond what could be achieved by lowering short-term interest rates near their lower bound, many central banks had to pursue alternative policies of quantitative and credit easing. Thus, it is questioned that the policy-controlled short-term interest rate is the only tool of monetary policy[5]. During the crisis, central banks moved from the traditional way of conducting monetary policy to combining the objectives of monetary and financial stability.

Most instruments have also become more complex due to unconventional measures designed to overcome the period of extraordinary circumstances affecting the performance of standard instruments. The new set of instruments was aimed at strengthening financial stability and economic recovery.

Crisis Effects on GDP

The negative effects although through indirect channels of transmission, did not leave unaffected either developing economies, which face a significant slowdown in economic activity. Unlike the first half of 2008, when there was an opinion that the financial crisis would not be felt to a large extent in these countries, after the aggravation of the crisis in the last quarter of the year, it turned out that no country remained immune to its negative effects.

The practice has confirmed the unsustainability of the opinion that the dynamic economic growth of fast-growing economies will continue and will be a sufficiently strong counterweight, which will contribute to neutralizing the economic slowdown in developed countries at the global level. Namely, in all rapidly

3 Optimism about Macedonia's Economic Prospects, Set times The News and Views from Southeast Europe November,2011. See:http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2011/11/07/ feature-02

4 IMF Satisfied with the Fiscal and Monetary Policy. Utrinski Vesnik. April, 2013

5 Fahr, S., Motto, R., Rostagno, M., Smets, F., Tristani, O. Lessons for Monetary Policy. Strategies from the Recent Past. Sixth ECB Central Banking Conference, 2010.p. 27.

growing economies, a significant slowdown in economic growth compared to the previous year is observed.[6]

Table 1. Economic Growth Rate (annual GDP growth) – (2007-2009)

Regions and states	**Annual GDP growth**		
	2007	2008	2009
Global level	5,15%	3,20%	-1,32%
Developed countries	2,71%	0,85%	-3,79%
Eurozone	2,67%	0,86%	-4,23%
Emerging and developing economies	8,34%	6,11%	1,58%
North Macedonia	5,86%	5,00%	-2,00%
The largest foreign trade (export) partners of North Macedonia	6,91%	5,43%	-2,00%
Germany	2,51%	1,29%	-5,61%
Greece	4,04%	2,93%	-0,20%
Bulgaria	6,16%	6,02%	-2,00%
Italy	1,56%	-1,04%	-4,45%

Source: IMF Database, October 2008 and April 2009.

The main indicator of the changes that occurred as a result of the economic crisis is the economic growth of the country. The observed GDP growth in the first quarters of 2008 from an average of 6% decreased to 2% in the last quarter, which in itself indicated the beginning of the impact of the crisis on the North Macedonian economy. The trend of decreasing economic growth continued during 2009, so the North Macedonia ended the second quarter of 2009 with -1, 4% GDP[7]. However, the numbers above indicate that the slowdown in economic activity of the North Macedonian economy is significantly lower compared to European countries and the countries of the Region. A double decrease in economic activity was recorded in Turkey, Ukraine, Estonia, and Lithuania, and the top of this list is Latvia where negative economic growth amounted to 18, 7% in the second quarter of 2009. Among the larger trade partners of North Macedonia, Germany was hit with a 7, 1% negative growth and even more Slovenia,

6 Blerta Kondri and Bukurie Imeri Jusufi, An empirical analysis of the impact of Global financial crisis on economic activity in North Macedonia, *European Journal for Business and Management*, ISSN 2222-1905 (Paper), ISSN (Online)2222-2839, Vol. 14, No: 23, 2022.

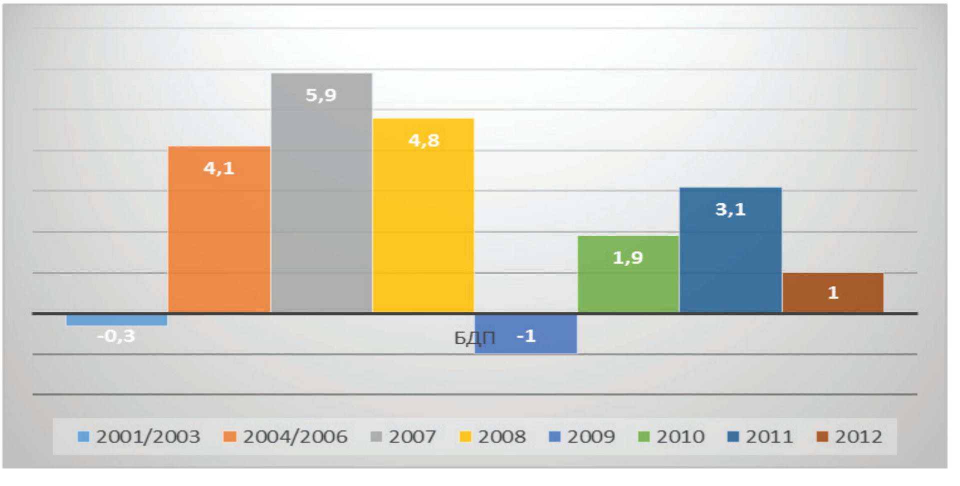
7 The North Macedonia State Statistics Office, 18.09.2009, http://www.stat.gov.mk/pdf/2009/3.1.9.05.pdf

which despite the anti-crisis measures, that directly subsidized the companies, recorded a 9,3% drop.

The decrease in exports continued in the first quarter of 2009, which had a key impact on the decline of the Gross Domestic period in this period of 0, 9% on an annual basis. In the first half of 2009, the economy entered the zone of negative annual changes, with the average decline in GDP during this period amounting to 1, 2%. However, the contraction of activity is significantly lower compared to other economies in the region and Europe. This moderate rate of decline was mostly due to the positive contribution of net exports to GDP, that is, to the higher decline in imports than exports. In addition, the decline in GDP was relativized by the greater resilience shown by personal consumption, while the population's income was still stable.

The slowdown in economic growth, as well as the constant downward revision of the expected rates of economic growth in the next two years in the countries that are the most important foreign trade partners of North Macedonia, largely contributed to the manifestation of indirect negative effects of the crisis in the economy. The slowdown in economic activity and consumption in these countries harmed the level of foreign demand and the position of North Macedonian export companies. In such conditions, in North Macedonia, the external position inevitably worsened and economic activity slowed down. The economic recovery from the crisis started in 2010 with a GDP of 1, 8%

Figure 1. GDP Growth in the North Macedonia (2001-2012)



Source: The data collected from IMF-World Economic Survey October 2010, April 2012, July 2012, and October 2012 with EBRD Database.

It can be seen from the figure that, although some economic recovery seemed evident in the first half of 2011, economic activity was reduced in the second half of 2011 and in the first half of 2012 as a result of the Eurozone crisis.

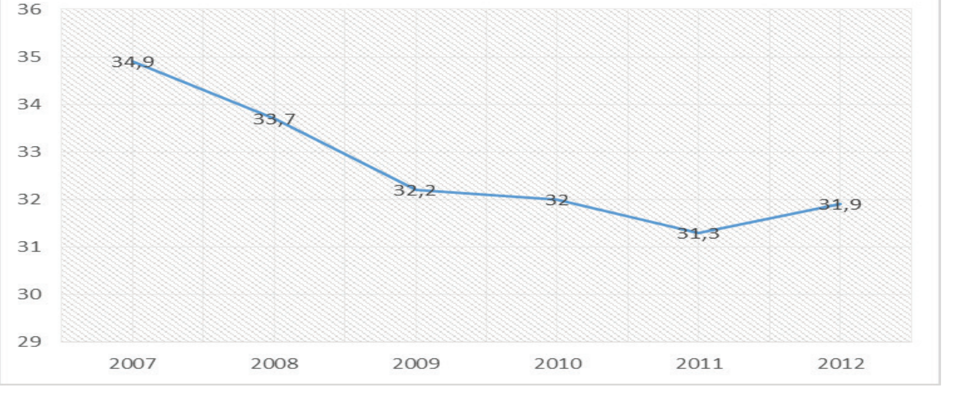
Crisis Effects on the Labor Market (The Level of Employment and Unemployment)

North Macedonia is ranked among the countries that have the highest unemployment rate. The unemployment rate in the country in the first quarter of 2009 was 32, 7% which is the lowest level compared to the past ten years, considering that in 1998 the unemployment was about 40%, and in 2006 was 36%. Intensive intervention measures and policies still managed to prevent further growth of the unemployment rate in North Macedonia, although dealing with these high unemployment rates remains one of the biggest challenges for the economic policies.

The high unemployment rate remained at above 30% during the entire period since the beginning of privatization and the transformation of the economic system from 1994 until 2012.

The unemployment analyzed since the beginning of the global economic crisis remained about 30%, recording a decline of 33,8% in 2008 to 31% in 2012, keeping us in the category of countries with the highest unemployment in Europe. During 2013, unemployment decreasing, but remained at the extremely high level of 29%.

Figure 2. Unemployment as a Percentage (%)



Source: The data collected from IMF-International Monetary Fund, World Economic Outlook Database, for October 2012.

Key factors that determine the level of employment in the country, stand out for the low level of economic development, the low efficiency of the labor market, and the high participation of long-term unemployment, while the quality of education is unaffected by the employment rate with an intensity like the previews listed one factor.[8]

Crisis Effects on Trade and the Current Account Balance

Foreign trade was the basic transmission mechanism of the negative effects of the global crisis on the North Macedonian economy. About 50% of the North Macedonian export of goods and services is directed to five countries: Germany, Greece, Serbia, Bulgaria, and Italy.

The global effect of the reduction of North Macedonian exports in 2009 (when North Macedonia achieved a negative GDP growth rate) compared to 2008 was 1.2 billion dollars, i.e. a reduction of 30%. At the same time, the largest decline was recorded with Greece, which was the most affected by the global crisis.

Table 2. Foreign Demand for North Macedonian Products

Total exports (year)	**Total exports (in billion dollars)**	**Effects on exports**
2008	3,9	A decrease of $1,2
2009	2,7	
Total exports (country/year)	Total exports (in billion dollars)	Effects on exports
Greece 2008	536	A decrease of $146
Greece 2009	290	
Germany 2008	565	A decrease of $146
Germany 2009	450	
Italy 2008	321	A decrease of $103
Italy 2009	218	

Source: The North Macedonia State Statistical Office: Statistical Yearbook of the Republic of North Macedonia for 2010 and 2011.

8 Mojsoska-Blazeski N., Kurtishi N., "The Macedonian Labour Market: What makes it so different?", MPRA Paper No. 42045, 2012, достапно на http://mpra.ub.uni-muenchen.de/42045/

The factors with a limiting effect on the growth of the North Macedonian GDP at the height of the crisis and in the post-crisis period were classified by the State Statistical Office as follows:

- Reduced foreign demand by 25%
- Reduced domestic demand by 20%
- Uncertain economic environment

The reduced foreign demand, the cancellation of orders by the foreign partners of the North Macedonian companies, as well as the reduced domestic demand had a negative effect on the reduction of the production of the companies (especially the export ones) and on their ability to regularly service the obligations to the banks for the previously mobilized loans.

Non-performing loans of enterprises grew by 6.7% in 2008 and by 34.8% in 2009.[9] The uncertain economic environment and the unfavorable perception of the region by foreign creditors and investors further complicated the situation of the enterprises sector.

Regarding the budget deficit, in the period from 1998 to 2008, North Macedonia recorded extremely low budget deficits, ranging from -0.4% to -1%. In 1999 and 2004 the budget balance was balanced, and in 2005 and 2007 we even had a slight surplus. A small exception to this long tendency is only the conflict year 2001 and 2002, when the budget deficit amounted to -5.9 and -5.6%, respectively.

Table 3. The Budget Deficit, Inflation and GDP in the Period From 1993-2007

Year	**Deficit**	**Inflation**	**GDP**
1993	-13,4	350	-7,5
1994	-2,9	122	-1,8
1995	-1,2	15,9	-1,1
1996	-0,5	3,0	1,2
1997	-0,4	4,4	1,4
1998	-1,7	0,8	3,4
1999	0,0	-1,1	4,3
2000	-1,8	05,8	4,5
2001	-5,9	5,5	-4,5

9 The North Macedonia State Statistical Office, 2011.

2002	-5,6 -	1,8	0,9
2003	1,1	1,2	3,1
2004	0,1	0,4	4,7
2005	0,2	0,5	4,7
2006	-0,5	3,2	5,1
2006	0,6	2,3	6,1

Source: Transition Report 2004, EBRD, London 2004, p. 38-41; Ministry Bulletin for finances of the Republic of North Macedonia, No: 9-10, 2004, Skopje and NBRM.

In 2009, North Macedonia recorded a negative GDP growth rate, really low, of only -0.4% but this concerning 2008, when the growth rate was 5.5%, still represented a significant decrease. In 2009 the budget deficit was -2.6% and in 2010 was -2.4%. Such budget deficits can be treated as normal anti-cyclical measures in times of recession, but also that they should start reducing quickly. Unfortunately, the budget deficits, instead of decreasing, continued to increase: -3.8% in 2012, -3.9% in 2013, -4.2% in 2014. With this dynamic of growth of budget deficits and accumulation of the country's public debt for a period of six years (2008-2014), the public debt of North Macedonia doubled from 23% as a share of GDP in 2008 to 46% in 2014.

Table 4. The Budget Deficit and Public Debt

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Budget deficit	-0,9	-2,6	-2,4	-2,5	-3,8	-3,9	-4,2	-3,5
Public debt	23,0	26,2	27,2	32,0	38,4	40,4	45,9	46

Source: Source: State Statistical Office. Ministry of Finance and National Bank of the Republic of Macedonia

The data confirm that the relatively low budget deficits, in a small country, with a modest export performance and with economic growth rates significantly below the potential of the economy, six years resulted in a doubling of public debt.

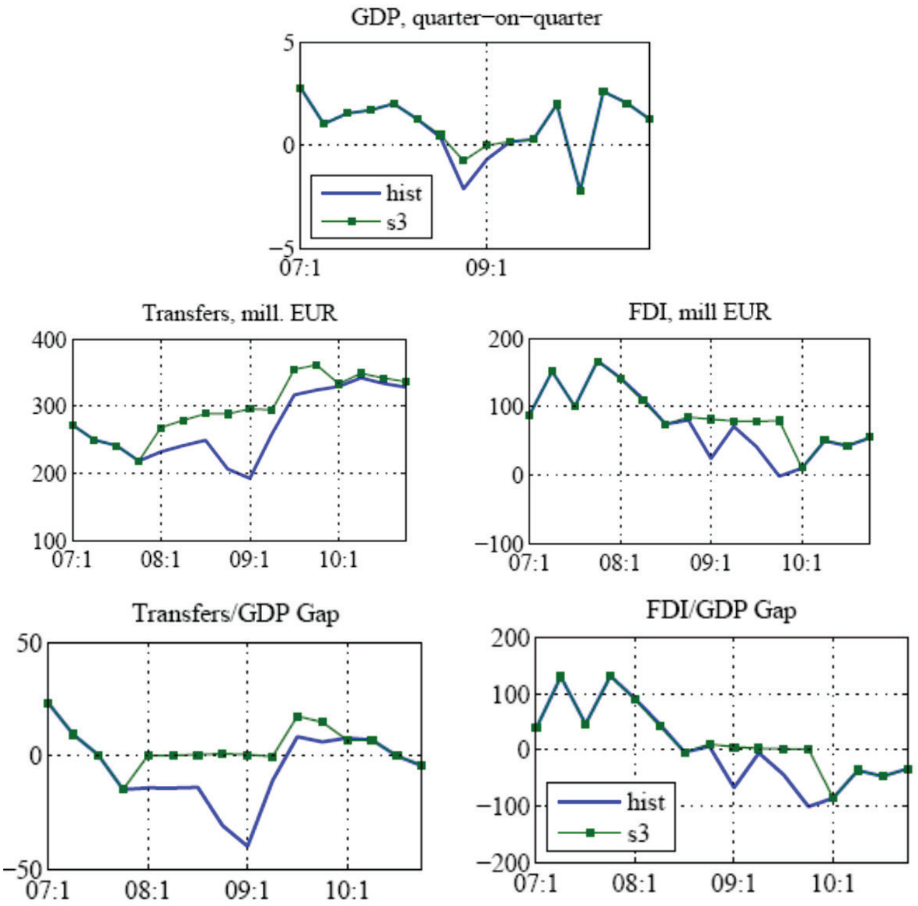
Crisis Effects on Foreign Direct Investments

The Global financial crisis also resulted in lower confidence, which affected the decisions of households and businesses, as well as overall economic trends. Similar to the previous crisis channel, a precise estimate of trust effects does not exist, so a degree of arbitrariness is also involved in this approximation. The effects of a loss of trust can be presented in two ways. First, lower consumption and business confidence affected private consumption and business investment, which further affected GDP. Statistics data show that the biggest drop in quarterly GDP occurred in the last quarter of 2008 and the first quarter of 2009. In particular, this period includes the largest quarterly decline in consumption during the crisis, as well as quarterly decline in private investments. The second way we approximate the effects of a loss of confidence is quite specific for North Macedonia and is related to two components of the balance of payments: FDI and especially private transfers. The great uncertainty regarding the European crisis and the potential effects on North Macedonia resulted in a sharp slowdown in private transfers between the end of 2007 and the beginning of 2009. This movement of transfers reflects both the lower inflow of remittances and the greater preference for holding foreign currency by households. In addition, the uncertainty affected the decisions of foreign companies to postpone or cancel their investments in North Macedonia.

Therefore, to capture the effects of loss of confidence on private transfers and FDI we assume that the deviation FDI/GDP ratio from its steady state stay is zero, instead of negative in 2008 and 2009.[10]

10 In "Overview of the Macedonian Policy Analysis Model-MAKPAM" the steady state rates of transfers and FDI to GDP are defined as their average shares between 2005 and 2015.

Figure 3. The MAKPAM Model for Evaluating Trust Effects (Real Data vs Assumed Movements in Theno-Crisis Scenario)



Source: The model is adapted according to the data from the national bank of North Macedonia.

In the period after 2007, according to the data of the National Bank of North Macedonia, Foreign Direct Investment manifested a tendency of obvious decrease- in 2007 they amounted to nearly 700 million dollars, in 2009 they fell to 197 million dollars, then they recorded an increase, and in 2012 they decreased to 132 million dollars[11].

11 Blerta Kondri and Bukurie Imeri Jusufi, An empirical analysis of the impact of Global financial crisis on economic activity in North Macedonia, *European Journal for Business and Management*, ISSN 2222-1905 (Paper), ISSN (Online)2222-2839, Vol. 14, No: 23, 2022 (p-7).

POLICY RESPONSES AND ANTI-CRISIS MEASURES TAKEN BY THE GOVERNMENT OF NORTH MACEDONIA

Prudent macroeconomic policy and additional reforms helped North Macedonia to withstand the global crisis much better than other countries in the region[12]. The impact of the crisis on living standards was moderate.

The anti-crisis measures taken by the North Macedonian Government were generally adequate. The authorities provided a significant fiscal stimulus according to indicators of sustainable long-term solvency and liquidity.

In order to mitigate the effects of the crisis, additional measures were also , including providing tax relief from income tax, implementing a major wage reform and supporting access to finance for small and medium-sized enterprises by providing a credit line from European Investment Bank, in the amount of 100 million euros. The National Bank, also tightened the policy in order to prevent the outflow of foreign reserves and to protect the currency[13].

In a period of six months, the Government adopted three packages of anti-crisis measures to support the real sector of the economy.

The first package of measures was adopted at the end of 2008. The budget deficit was limited to 2.8%, with most of the financing provided from abroad. Restructuring of expenditures was carried out in favor of public investments, as the expense of goods and services and public administration salaries. In addition, several measures were foreseen with an estimated effect of 330 million euros aimed for companies with inherited debts, but also at companies that were doing well through exemptions from profit tax, reduced customs duties for repromaterials, reduction of social contributions by one a third over a period of three years and reduced tax for farmers.

With the second package of measures, the Government of North Macedonia adopted a program for the implementation of infrastructure projects, road and railway infrastructure, the energy sector, residential construction, the environment, sports infrastructure and other capital projects, with the aim that these measures, in the short term, will help economic growth during the crisis, by supporting construction and other sectors, while in the long term it will improve the competitiveness of the economy.

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12 Economic policies and strategies in times of crisis,-Political thoughts ,Institute for Democracy, Skopje 2013.

13 International Bank for Recovery and Development.International Financial Corporation.Strategy for Partnership with the Country. Document of World Bank. September, 2010. (https://opengnowledge.world bank.org).

The third package of measures included anti-crisis measures relating to three segments:

1. Budget rebalancing, which includes a revision of macroeconomic projections and a corresponding reduction of budget revenues and expenditures under the new circumstances.
2. Credit support to enterprises through a credit line from the European Investment Bank in the amount of 100 million euros with a low interest rates, intended for: long-term, investment-loans, short-term loans for working capital, subsidy of interest rates for companies, issuing of guarantees and
3. Other measures to support enterprises, including measures to facilitate the export of goods, cost reductions and others.

In addition, the value added tax rate for newly built apartments was reduced from 18% to 5%. Despite the negative effects, the Government remained determined to continue with the structural reforms. Because of reforms taken in 2007, 2008, the first blow of the crisis was significantly amortized. In that direction, in January 2009, the reform of social contributions and the introduction of the concept of negotiation, calculation and payment of the gross salary of employees was implemented-a successful reform to facilitate the process of running a business, facilitate administrative procedure and reduce the cost of employers, improve the labor market conditions and increase the social security of the workers. The structural reforms undertaken by the Government of North Macedonia in 2008 and 2009 contributed to the country being in 32nd place on ranking list of ,,Doing Business 201014 were North Macedonia among 183 countries achieved a jump of 37 places compared to the previous year, when it was in 69th position.

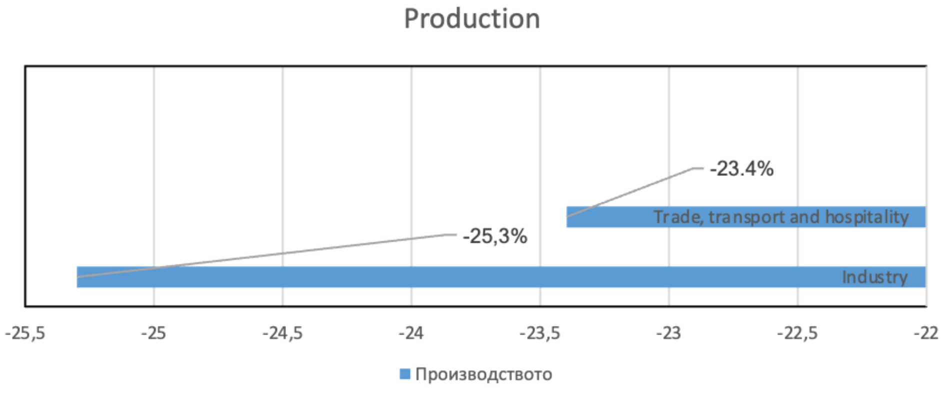
The Impact of COVID-19 Crisis on the Economic Development of the Republic of North Macedonia

No economy remained immune to the impact of the COVID-19 pandemic, including the North Macedonian economy. The closure of the economy and limited movement due to the spread of the Covid-19 coronavirus caused the deepest induced recession of the North Macedonian economy, with GDP decreasing by 12.7% in the second quarter of 2020[15].

14 The World Bank Report, Reforms in difficult times. https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB10-FullReport.pdf

15 https://www.financethink.mk/wp-content/uploads/2020/09/MMonitor_Q22020.pdf (пристапено на 20.03.2022). Finance Think е непрофитен институт за економски истражувања

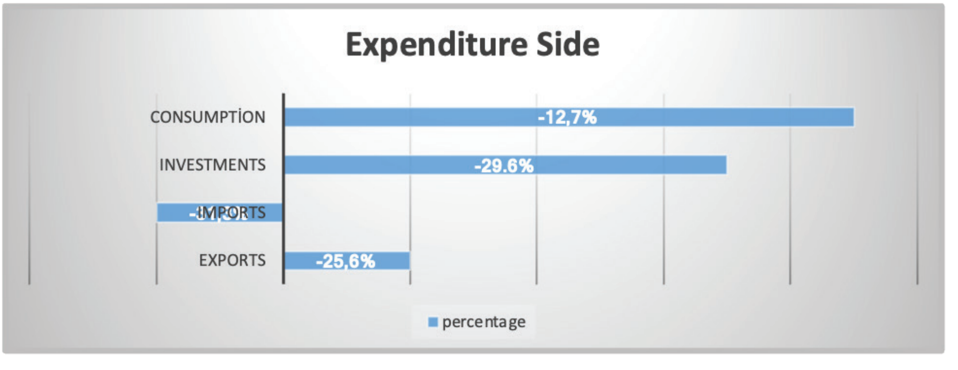
Figure 4. The Impact of COVID-19 Crisis on the Economic Development of the North Macedonia Production Side



Source: Adopted by the author based on data fromhttps://finance.gov.mk/wp-content/uploads/2021/062022-2026.

Regarding production, the decline was higher in industry (-25.3%) and trade, transport, and hospitality (-23.4%), with industry and transport declining mainly due to limited international trade and restricted movement, while trade and hospitality suffered from imposed closures and abstinence from consumption of non-essential goods and service

Figure 5. The Impact of COVID-19 Crisis on North Macedonian Economy and Expenditures



Source: Adopted by the author based on data fromhttps://finance.gov.mk/wp-content/uploads/2021/062022-2026.

Regarding expenditures, the effect of induced contraction and limited movement is visible in the declines in exports (-25.6%), imports (-31.3%), and investments (-29.6%), while the decline in consumption is milder (-12.7%).

Unemployment in the second quarter of 2020 increased for the first time in 15 years, to 16.7% from the previous 16.2%. However, growth is significantly lower compared to the contraction of the economy, mainly because the impact of the crisis was met by government measures the wage subsidy measure in the amount of 14 500 denars per worker, which included a provision for keeping the workers during the use of the measure and two months after its termination.

Between the two quarters, the most jobs, 12,000 or 24.2% were lost in the transportation and storage industry.

After a sharp decline in 2020, the economy was expected to recover in 2021[16], after which economic growth is predicted to intensify in the coming years.

State support through various economic measures continued in 2021, both through the measures that were taken the previous year and continued to be implemented, and through new measures, to support the domestic economy for its faster recovery and create a basis for higher economic growth in the long term.

In 2020, GDP recorded a decline of 4.5% on a real basis as a result of unfavorable developments in the second quarter, when real GDP decreased by 14.9% on an annual basis17, which was due to the restrictive measures to prevent the spread of the coronavirus in the country and the deteriorating international environment, and it affected the activity of a large part of service activities and construction industry.

In the third and fourth quarters, a decrease of 3.3% and 0.7% respectively was recorded, in conditions of a slower pace of decline in activity in industrial and service sectors, i.e. more favorable trends in export and investment activity and continuous growth of consumption in order dealing with the pandemic.

16 https://finance.gov.mk/wp-content/uploads/2021/062022-2026.pdf. Republic of North Macedonia Government of North Macedonia Fiscal Strategy of North Macedonia for 2022-2024 (with outlook until 2026) Скопје, Мај 2021, (accessed on 24.03.2022).

17 Ibid, p.7

Policy Response Anti-Crisis Measures Taken During Coronavirus Crisis: Fiscal Support Packages

The impact of the crisis caused by Covid-19, led to creation of anti-crisis measures aimed to support the economy with the main focus on citizens, their jobs, social security, solidarity, as well as creating an environment for easier overcoming of the economic consequences of the coronavirus.

The Government of the Republic of North Macedonia[18] brought several packages of economic measures that are estimated at 1.2 billion euros, that is, about 10% of GDP, of which the value of the first four packages of anti-crisis measures is about 1.02 billion euros. About 70 different measures have been adopted within the first four packages, which cover and support entities and individuals affected by the pandemic. The fourth package of economic measures amounts to 470 million euros, while the total value of the previous three packages is about 555 million euros. The fifth package of economic measures contains a total of 29 measures with a value of 160 million euros and is aimed at citizens, companies and for improving the liquidity of the economy.

The sixth package of measures includes seven measures targeting the most affected sectors. The sixth package has a value of 17.8 million euros.

All adopted measures can be divided in to following three groups:

1.Measures that cause budget expenditures, i.e. have direct fiscal implications,

2.Measures that cause reduced budget revenues, and

3.Measures that have an economic impact, but do not have fiscal implications.

The first two packages of economic measures cushion the first blow of the economic crisis caused by the coronavirus. The main characteristics of these package measures were their timeliness, their comprehensiveness and their precise dimensioning.

The first package was aimed to mitigate the impact of the health crisis on the economy. The first package includes: direct liquidity financial support for micro, small and medium-sized enterprises, as well as subsidizing contributions for tourism companies, transport, catering and other companies that have negative consequences of the coronavirus, for April, May and June 2020.

18 https://vlada.mk/node/24854 - Информација со статус на реализација на економски мерки за справување со КОВИД-19 (пристапено на 24.03.2022)

Table 5. Summary of the First Package Anti-Crisis Measures

Group	Asset plan for measures	Used funds	Unused funds	Implementation	Implementation (in %)
Direct budget expenditures	1.200.000	–	–	–	–
Reduced budget revenues	5.500.000	4.595.158	894.576	5.489.734	99,8%
Without fiscal implication	5.500.000	5.500.000	–	5.500.000	100%
Total	12.200.000	10.095.158	894.576	10.989.734	90,1%

Source: Adapted by the author according to data taken from:https://vlada.mk/node/24854 Information on the status of implementation of economic measures to deal with COVID-19 (accessed on 24.03.2022).

Within the framework of the first package, no funds were realized for measures that caused budget expenditures, that is, direct fiscal implications. With the first package of measures, an exemption from the payment of monthly installments for personal income tax and profit tax from March to July 2020 was foreseen for entities with reduced income of 30% compared to the previous period, with lost revenues of 2.1 million euros, as well as subsidizing 50% of the contributions for April, May and June 2020 per employee in companies from the affected sectors where revenues from 2.5 million euros have been lost. Also, customs duties were abolished for certain bases, and the statutory default interest and penal interest for public duties were reduced.

On March 31, 2020, was announced the second package of economic measures, which included: refunds of salaries in the amount of 83.3 million euros and free loans to protect the liquidity of companies, as well as restrictions on the payment of salaries and allowances for certain categories of citizens (MPs members of management and supervisory boards etc).

The total estimated value of the first and second package of economic measures was 200-250 million euros or 2% of GDP.

Table 6. Summary of the Second Package (in Euros)

Group	Asset plan for measures	Fund used	Unused funds	Implementation	Implementation (%)
Direct budget expenditures	85.882.000	85.540.869	346.300	85.887.169	100%
Reduced budget revenues	–	–	–	–	–
Without fiscal implication	247.000.000	247.000.000	–	247.000.000	100%
Total	332.882.000	10.095.158	894.576	10.989.734	100%

Source: Adapted by the author according to data taken from од https://vlada.mk/node/24854 -Information on the status of implementation of economic measures to deal with COVID-19 (accessed on 03/24/2022)

Most of the support was related to measures that had no fiscal implications, above all the introduces possibility to postpone and restructure loan repayments for companies and citizens for a period of 3 to 6 months. Also, 8 million Euros were provided for a new line of interest-free loans from the Development Bank, through which 639 enterprises with 11, 325 employees were supported. With this package, the suspension of the enforcement law, the ban on opening bankruptcy proceedings, the exemption from rent for users of social housing, etc. For measures that caused direct budget expenditures, 85.9 million euros were allocated, and the funds have been fully implemented.

In the third package, which was aimed at stimulating demand and was presented on May 17, 2020, out of a total of eight measures foreseen so far, only two have been implemented: a local payment card and coupons to support local tourism.

The main benefits of the third package of measures include[19]:

- Encouraging the private consumption of citizens, which creates conditions for a better life;
- Protection of existing and creation of new jobs;
- Increased competitiveness of four companies at the domestic, regional and global level;
- Intervention activation of domestic tourism;

19 https://koronavirus.gov.mk/merki/ekonomski-merki (21.03.2022)

- Promotion of new agricultural crops and support to farmers for even greater volume and quality of domestic production
- Development of economic activities by introducing IT and online activities and tools;
- Stimulating and increasing cashless and online payments, as an instrument to suppress the gray economy

A total of 229.3 million euros have been set aside for the third package, of which 172.9 million, i.e. 75.4%, have been implemented by February 2021. A higher amount of the third package is intended for physic entities, i.e. 122.4 million euros, while 106.9 million is aimed at legal entities.

Table 7. Resume of the Third Package (in Euros)

Group	**Asset plan for measures**	**Used funds**	**Unused funds**	**Implementation**	**Implementation (%)**
Direct budget expenditures	143.250.000	56.205.804	29.775.139	85.980.943	60%
Reduced budget revenues	–	–	–	–	–
Without fiscal implications	86.000.000	80.600.000	6.300.000	86.900.000	101%
Total	229.250.000	136.805.804	36.075.139	172.880.943	75,4%

Source: Adopted by the author according to data taken from https://vlada.mk/node/24854-Information on the status of implementation of economic measures to deal with COVID-19 (accessed on 24.03.2022).

For the measures that cause direct fiscal expenditures, 86 million euros have been implemented, i.e. 60% of the planned 143.3 million.

This package included several measures with a significant amount of budget expenditures, primarily payment cards, worth 3000 denars for young people and for employees with a net salary of less than 15 000 denars per month. Just for this measure, were implemented 28 million euros, allocated to around 309,337 citizens.

In the fourth package, which was presented on September 27, 2020, out of a total of 31 planned measures, such as: support for the payment of salaries for 3 months, payment cards for citizens, subsidies for 500 travel agencies, grants for restaurants, weekends without VAT, etc.

A total of 472.1 million euros have been set aside for the package, of which 73% or 343 million, have been implemented.

Table 8. Resume of the Fourth Package Measures (in Euros)

Group	Asset Plan for measures	Used funds	Unused funds	Implementation	Implementation (%)
Direct budget expenditures	293.400.000	171.814.725	100.949.698	272.764.423	93%
Reduced budget revenues	36.410.000	10.440.300	17.509.700	27.950.000	76,8%
Without fiscal implication	142.276.422	42.276.422	–	42.276.422	29,7%
Total	472.086.422	224.531.448	118.459.397	342.990.845	72,7%

Source: Adopted by the author according to data taken from https://vlada.mk/node/24854-Information on the status of implementation of economic measures to deal with COVID-19 (accessed on 24.03.2022).

Within this package, 293 million euros have been allocated for direct budget expenditures, of which 272.8 million, or 93% have been implemented. Some of the most important measures from previous packages have been continued. As financial support for the payment of salaries for October, November, and December, 70 million euros were implemented, while 13 042 companies with 70.766 employees used the support.

Apart from this, 27.6 million euros have been implemented for 254.646 beneficiaries as financial support for vulnerable categories through the payment of financial assets to a transaction account for greater consumption and the development of domestic economic activities. Part of the loan from the World Bank to support the health and social sector in the amount of 68.4 million euros has been implemented.

Table 9. The Effect of the Four Packages on Economic Activity and Employment

Real growth rate (%)	Included impact of measures (published data from State Statistical Office)	Without the impact of the measures (counterfactual analyses)	Impact (percentage points)
GDP	-4,5	-8,4	3,9
Private consumption	-5,6	-11,8	6,2
Public consumption	10,1	3,3	6,8
Gross investment	-10,2	-11,6	1,4
Export of goods and services	-10,9	-11,9	1,0
Export of goods and services	-10,5	-12,6	2,1

Source: Adopted by the author based on data taken from: https://vlada.mk/node/24854.

In 2020, economic activity recorded a drop of 4.5% (within the predictions). The reduced economic activity is mainly the result of unfavorable developments in the second quarter, when real GDP decreased by 14.9% on an annual basis, which is due to the restrictive measures to prevent the spread of the coronavirus in the country and the deteriorating international environment, which affected the activity of a large part of service activities and construction industry.

In the third and fourth quarters, the decline in economic activity slowed down significantly, i.e. a decline of 3.3% and 0.7% was recorded respectively, in conditions of a slower pace of decline in the activity of industrial and service sectors, i.e. more favorable trends in export and investment activity (a growth of 4.2% in the third quarter after a decline of 34.4% in the second quarter) and continued growth of public spending to deal with the pandemic. The fiscal stimulus of the implemented measures amounts to 704 million euros, i.e. 6.5% of GDP.

It was estimated, that through this fiscal impulse, the decline in economic activity has been mitigated, i.e. without these measures the decline in economic activity would have been higher by 3.9% percentage points in 2020, i.e. amounted to -8.4% against the achieved decline of 4.5%.

The fifth package of economic measures was intended for citizens and companies, for the stability and development of the Macedonian economy, and for improving the liquidity of the economy.

The fifth package contains a total of 29 measures, worth 9 billion denars or about 160 million euros. The measures from the fifth package of economic measures are systematized in four main pillars[20]:

- Direct financial support for companies to keep jobs and for citizens working in sectors that still suffer from the pandemic consequences.
- Financial support to support the liquidity of citizens and the private sector to increase the number of workers as well as the healing process of companies.
- Systemic redefining of the customs tariff, reduction of other Para fiscal taxes and tax relief, and postponement of several public taxes.
- Support for citizens.

The sixth package of anti-crisis measures economic measures worth 17.8 million euros was intended to support activities that were completely closed in order to prevent the spread of the coronavirus during April 2021, as well as to improve the liquidity of companies that invest during 2021.

The sixth package of measures includes seven measures targeting the most affected sectors, and 10.000 companies employing around 60.000 citizens were supported.

The sixth package targeted the following subjects and measures:

- Catering facilities were supported with around 9.9 million euros, covering around 6000 entities, employing 17.000 people. In addition, all registered catering establishments received 15.200 MKD İN financial support for employees as of April 2021.
- Event industry, playhouses, private children's resorts, fitness centers, and photography studios were supported with 2.5 million euros. About 1200 companies belonged to these categories and 30% of their revenues were covered.
- Categorized travel agencies were supported with 1.4 million euros, travel agencies with an A license received 5000 euros and travel agencies with a B license received 2000 euros.
- Musicians, members of musician's associations as well as tourist guides, who during 2020 had an average monthly net income below 15.000 MKD, received financial support of 30 750 MKD.

20 finance.gov.mk/wp-content/uploads/2021/06/ФИСКАЛНА-СТРАТЕГИЈА-НА-РЕПУБЛИКА-СЕВЕРНА-МАКЕДОНИЈА-2022-2026.pdf. стр.30 (пристапено на 25.03.2022)

- About 2 million euros were allocated to companies that have reinvested their profits from 2020, to help them to improve their liquidity and to continue their development.
- Media broadcasting radio and television programs were supported with interest-free credit lines through the Development Bank of one million euros.
- For foreign tourists who stayed in the country, 50.000 PCR tests were provided free of charge as additional support and assistance for domestic tourism.

The fiscal policy response to the pandemic in the country was quick and significant in supporting enterprises and employees in the most affected activities and vulnerable categories and had a significant impact on mitigating the negative consequences of the pandemic.

Table 10. Value of the Packages

Package	**Value in million euros**	**Purpose**
First package **Second package**	200-500 million euros or 2% of БДП	The main characteristics of these package measures were their timelines, their comprehensiveness, and their price dimensioning.
Third package	355 million euros	Covering 730 000 users, it is intended for citizens and the economy
Fourth package	478 million euros	Direct assistance for the economic and social security of fellow citizens, as well as for the encouragement of private consumption as a stimulator of social growth.
Fifth package	160 million euros	Intended for citizens and the real sector, for a stable and developing economy.
Sixth package	17.8 million euros	Intended for 10 000 companies and 60 000 employees, to support the economy.

Source: Adapted by the author based on data taken from://koronavirus.gov.mk/merki/ekonomski-merki The given measures published until April 24, 2020 are given in the table below for the Republic of North Macedonia.

Table 11. Short-term Measures to Mitigate the Social and Economic Impact of COVID-19 in the North Macedonia

Fiscal and commercial measures	**Monetary and financial measures**	**Social Assistance**
• Reduction of interest rates and sector fees •Temporary suspension of PDD payments and advance payments of profit tax for taxpayers who are self-employed for March, April, and May 2020, especially in the hospitality, tourism, and transport industries, but also was applied to other affected sectors. • Reduced interest rates for remaining tax obligations • Support for job protection: direct cash transfers for companies that meet certain criteria, to pay salaries and retain employees. • Temporary ban on initiation of bankruptcy proceedings •Salary reduction for all officials. • Abolition of fees for members of management and supervisory board and commissions during the crisis.	• Direct financial support for qualified MSME-s that become insolvent due to the coronavirus crisis • Reduction of the basic interest rates of the National Bank from 2 to the historically lowest 1.75 percent • Reduction of default interest rates for legal and physical entities • Re-introduction of non-standard reserve requirement • Extension of the period in which banks have to submit their liquidity assessment reports •Abolition of fees for withdrawing and returning money to the central treasury of the National Bank • Temporary freeze on NFC reclassification • Zero interest rate loans are provided through the development bank	• Social contribution subsidies for qualified companies in tourism, transport and other affected companies for April, May and June. Up to 50 percent of the contributions of the average salary paid in 2019. • Exemption from paying rent for users of social housing. • Monetary benefits for citizens who have lost their jobs (50% of the employee's average salary) • Temporary slacking off the criteria for social assistance • Exemption from the payment of rent for users of social housing

Source: Adapted by the author from Regular Economıc Report For The Western BALKANS NO.17, Spring 2020 Economic and social impact of Covıd-19 Outlook For The Western Balkans, 2020. https://thedocs.worldbank.org/en/doc/71963158814423970800800022020/render/WBRER17TheEconomicandSocialImpactofCOVID19Outlook.pdf

ANALYSIS OF THE SIMILARITIES AND DIFFERENCES BETWEEN THE FINANCIAL CRISIS OF 2008 AND COVID-19 CRISIS

Covid-19 crisis has had negative effects globally, affecting many economies and worsening their conditions, leading to severe recession. Additionally, compared to global financial crisis of 2008, Covid-19 crisis is deeper.

Most of the measures were to support the cash flows off businesses to reduce bankruptcies and thereby protect jobs.

There are three main economic similarities that can be analyzed in relation to the Covid-19 pandemic and financial crisis[21]:

Uncertainty: Both crises share uncertainty as a key factor once they emerged in one of the two leading economies (The United States in 2008 and China at the end of 2019) and spread globally.

Collapse: the initial declines in the stock markets of major countries (up to a quarter of their valuation) were similar between the two crises. Both global recessions were subsequently qualified as the worst since the Great Depression.

Reactions: To limit such shocks, monetary and fiscal policy provided enormous support.

CONCLUSION

The strong external shocks that were caused by Global Financial crisis and Covid-19 crisis were transmitted to almost all economies. They did not ignore also the North Macedonian economy, creating risk for financial stability, which however were limited. The domestic financial sector cope well with the challenges and showed that is resilient to shocks and has the capacity to face the crisis. First of all, it is due to the mainly local orientation of the activities of the financial sector, the implementation of the traditional business by banks, based on lending to households and the corporate sector during the stabile and diversified financing structure (with mainly of households deposits) and public confidence in financial sector. Unlike the financial sector, the real sector of North Macedonia was hit harder by both crises, especially from Covid-19 Pandemic, the negative

21 https://www.atlanticcouncil.org/blogs/new-atlanticist/can-we-compare-the-covid-19-and-2008-crises/ Can we compare the COVID-19 and 2008 crises? By Marc-Olivier Strauss-Kahn (Marc-Olivier Strauss-Kahn is an international economist, with extensive experience in central banking institutions and international organizations

effects from which were deeper, as a result of measures to limit social activities as well as a result of the war in Ukraine and economic sanctions and trade restrictions imposed by European countries on Russia. Such developments caused price shocks in the global energy and food market which affected the domestic economy through increased inflation.

To overcome the negative consequences of both crises, the Government of North Macedonia, undertook a plan of anti-crisis measures, additionally fiscal and monetary measures to support the households and businesses, which mitigate the negative effects of the crises, although these effects will be felt for a longer time.

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